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Exploring 21st Century Capitalisms and Asia: The impact of financialization

Glenn Morgan

Introduction

The study of institutions is increasingly dominated by discussions of change; how and why forms of capitalism are changing, particularly in the light of the impact of globalization, neo-liberalism and the 2008 Global Financial Crisis e.g. (Schmidt and Thatcher, 2013; Morgan and Whitley, 2012; Thelen, 2014; Streeck, 2014a) and specifically on East Asia (Walter and Zhang, 2012; Whitley and Zhang (2016)). Mostly these discussions focus on particular national contexts and the impact on them of both internal and external changes. Rarely do they focus on the interdependencies between national capitalisms and even more rarely do these accounts examine interdependencies across regional contexts, e.g. between forms of western capitalism and forms of Asian capitalism. In this paper, I take the view that in order to understand these changes, it is necessary to undertake just such analysis and see how Western and Asian forms of capitalism are interacting in the current period. In so far as this interaction is examined in the comparative capitalisms context, it is primarily from the point of view of global production networks and how, why and with what effects the emergence of these networks is related to national and local institutions and processes of change within them. However in this paper, I examine the interactions from a different perspective. In particular, I focus on the concept of financialization. As many authors have pointed out (van der Zwan, 2013), this concept has been used at a variety of levels – institutions, firms, states, financial institutions, individuals - to explain a

fundamental shift in the nature of capitalism in the late 20th and early 21st centuries (Froud et al., 2006; Martin, 2002; Carruthers, 2015; Engelen et al., 2011; Krippner, 2005). However it is noticeable that unlike global production networks where the nature of Asian forms of capitalism is a central part of the explanation for their growth, development and restructuring, the debate about financialization proceeds with very limited reference to Asia. This reflects in part the sense that still surrounds the concept – that it is primarily related to shifts in liberal market economies, particularly the USA and the UK. Recent research both on other European countries and on the impact of the 2008 financial crisis leading into the Euro-crisis (see for example Alvarez, 2015; Engelen and Konings, 2010; also the contributions to the Special Issue of *Socio-Economic Review* July 2015;) has shown how financialization is a process that is tying together Western economies in new and unexpected ways. Thus various forms of financialization are penetrating into not just liberal market economies but also more coordinated forms of capitalism. Unpicking where and how this occurs depends on detailed analysis of institutional legacies, political contingencies and the impact of global economic movements yet the point is clear. Financialization is not just about the US and the UK. Similarly it is not just about the US and Europe. We can expect that it will also figure in various ways in Asian forms of capitalism (see Guillen 2015 for one of the few efforts to link all these parts of the global system together). This paper is an effort to consider in what ways financialization is emerging in Asian capitalism, how this connects it to processes of financialization in Western forms of capitalism and what the consequences of these interactions might be. The paper firstly describes financialization as it has emerged Western economies and how it has led to a restructuring in Western forms of capitalism. It emphasizes that financialization is a political process that builds a particular dynamic of capitalist development by facilitating the creation of coalitions of

powerful actors that transform long standing institutions and create a new pattern of norms for states, firms, markets and individuals to abide by. There can be multiple forms of adaptation and resistance but an overwhelming logic of transformation continues, surviving even such setbacks as the 2008 Global financial crisis. The second part of the paper then asks what, if anything, the growth of this powerful coalition of interests and institutions linking European and US forms of capitalism together means for Asian forms of capitalism. Firstly are these trends independent of Asian forms of capitalism or are they somehow connected? If so, in what ways and with what consequences? Secondly are these trends towards financialization also appearing in Asian forms of capitalism and if so in what ways and with what impact on institutions, firms, states and individual actors?

Financialization and capitalism

Financialization remains a rather diffuse and elusive concept. This is in part because in academic literature it has been defined in a number of ways ranging from macro theories of the changing nature of society and the economy (Krippner, 2005; 2011), through firm-level accounts of the increased focus on short-term financial returns for shareholders (Froud, 2006) and through to the idea of the financialization of everyday life and individual identity as a result of the web of credit and debt in consumer societies (Martin, 2002). The approach taken here is that financialization can exist across a number of different levels; at each level it acts to dissolve previous norms and practices though the degree to which it achieves this and becomes dominant varies. Its success in this respect is partially dependent on the degree to which similar changes are occurring at other levels. In this sense there is a process analogous to what is described as 'institutional complementarity' in the varieties of capitalism literature (Hall and

Soskice, 2001), i.e. if financialization has become more dominant at one level, this will fit with and produce stronger returns if it also exists at another level.

What are these levels of financialization and what resistances do these processes encounter? The first level is economy as a whole and the sources of profitability in the economy. The rise of first Japan, later Korea and more recently China, Vietnam etc. and other sources of cheap labour has undermined the profitability of many forms of manufacturing in the developed West. Whilst some more complex manufacturing remains, much has been outsourced to these alternative locations. Even in those manufacturing industries which remain, competition between firms from the developed economies as well as emerging has made it more difficult to create long-term sustainable advantage and stable profitability. This has led to a shift to services in many of the developed economies and in particular within the US and the UK a shift towards a focus on financial services. This is reflected not just in a growing banking sector but also in the way in which companies based in manufacture have extended themselves into financial services, often at first by providing credit to consumers for the purchase of their goods but gradually into more complex forms of finance. Selling financial products to households, corporations and to other financial institutions has for a variety of reasons become more profitable for many Western companies than selling goods and manufactures. Thus financialization at one level refers to this shift between sectors and across the economy as a whole so that finance becomes the dominant driver of economic growth as seen in the US and the UK in the 2000s up to the 2008 crisis.

A central driver in this process has been the extension of the financial markets based on shareholder value driven models of the firm (Davis, 2009; Froud et al., 2000) where the

concerns of senior managers became increasingly focused on generating short-term gains for shareholders in return for reward packages that were linked to this performance. From the 1980s, more activist policies on the part of shareholders drove a more powerful disciplinary regime over the actions of managers. Failure to produce returns would result in shareholder dissatisfaction which would emerge in falling share prices and the threat of takeover. The growth of the market for corporate control was primarily driven from within the financial system; there needed to be financial institutions capable of bringing together large scale loan capital at low enough interest rates to make the risks worthwhile. Favourable tax and legal regimes for these sorts of activities reinforced the emergence of such processes. Where profitability for manufactured goods was becoming increasingly difficult because of global competition, activities in the financial markets offered an alternative or additional source of profitability as rapid shifts in share price could be engineered by takeover bids bringing short term rewards to existing shareholders and managers. In terms of firm strategy, the result was that managers became increasingly focused on returning profits to shareholders, particularly through share buy back arrangements instead of retaining and investing in growth. Share buybacks were ways to push up the stock price that again advantaged existing shareholders and senior managers in stock option schemes. Thus senior managers increasingly turned to the bond markets to fund growth as interest rates were low and capital easily available (Lazonick and O'Sullivan, 2000; Lazonick, 2009).

The growth of shareholder driven firms impacts on the third level of financialization which is the growth of financial markets and these markets became increasingly

powerful and influential in policy making pressing for forms of financial market deregulation and articulating and pressing for a low tax regime both in terms of personal taxation but also in terms of corporate taxes (Froud et al., 2006; Froud et al., 2007; Morgan and Sturdy, 2000). The Bretton Woods settlement aimed to place finance in a constrained position by regulating capital movements across national boundaries and within nation-states limiting the sorts of businesses and the sorts of structures which the banking sector could take on. As these controls were taken off and new financial markets invented and constructed, a massive expansion occurred. Whilst the US and the UK were central to these developments, by the 1990s, French and German banks, in particular but also other European banks were internationalizing in order to participate in the earnings potential of these markets. As rules about financial markets and institutions changed in key markets like the US and the UK, these firms spread across the world creating a series of inter-connected 'world cities' (Taylor and Walker, 2001) through which capital flowed supported by a vast array of services, such as law firms, accountants, consultants, advisers, regulators etc.. These markets expanded as financial surpluses grew (in expanding economies such as China, the Middle East, Russia, Brazil) and firms and wealthy individuals from these economies and from the US, Europe, Japan sought new outlets for their wealth. Financial institutions flooded with funds from investors demanding higher returns are incentivized to create new money (by increasing their leverage ratios and through this their lending) and new products. Unlike manufacturing industry where new product development can take years from conception to selling on the market, financial institutions have the capacities to develop new ways of engaging in the market in a matter of months. They can also adjust their offerings overnight once they have the basic contract established so they have no worries about ending up with products unsold and having to manage a massive

inventory. From the 1990s through to the 2010s, financial institutions have been adept at developing new products. Derivatives, in particular, designed to protect against various forms of risk have grown exponentially. As well as performing their original function of protecting against risk, such products can also be purchased for purposes of speculation; rather than dispersing risk around the system, risk can become concentrated, e.g. as happened in 2008 (Morgan, 2010; Morgan, 2012; Lounsbury and Hirsch, 2010; Carruthers, 2015). Ultimately, therefore, the new institutional ensemble that arises from the emergence of finance is one that leads to a high risk economic experimentation where booms and collapses become increasingly endemic (Minsky, 2008).

The concept of financialization, however, does not just describe the growth of the rich, the rise of finance in the economy, the changing nature of firms and the ensuing instabilities. It is also used to analyse wider changes in society and in particular the impact on firstly labour and work conditions and secondly on the state and state financing. In relation to labour, the pressure to maximize shareholder value feeds down into management strategies that seek to match labour requirements more closely to market conditions and to avoid processes of regulation and standardization that set rewards and work conditions through collective organization. This is reflected in Piketty's finding that the share of GDP going to labour has been shrinking in most countries compared to that going to capital (Piketty, 2014). Shareholder driven firms have increasingly looked to develop more diverse ways of managing their labour force; extensive outsourcing to emerging economies, the use of temporary and part-time contracts, the creation of 'self-employed' status for employees as ways of cutting wages and benefits. As work and careers become more precarious, and more individualized

and rewards more uneven over the course of a lifetime due to firms restructuring and reducing core labour whilst increasingly employing temporary, part-time, low paid, agency based workers, a trend exacerbated by the growth of service work in retail and personal care (Wren, 2013), financial products become an essential supplement to wages and benefits, from the poorest dependent on loan sharks and payday loans through to home owners dependent on mortgages and credit cards whilst trying to save for pensions, education, health etc.. The result has been that incomes for the working population have been stagnating even in successful economies such as Germany and the USA over the last 20 years due to the impact of global competition and the dismantling of labour market protections and regulations. Alongside this, welfare benefits supplied by collectivist schemes at state, occupation or firm level have been progressively eroded and replaced by private savings schemes. Staying out of poverty and maintaining a reasonable standard of living has become ever more demanding, requiring more and more dual wage-earning families.

This has boosted the financial markets in two respects. Firstly in order to purchase large cost items such as housing and cars and to pay for higher education and in the US health costs, individuals have increasingly had to borrow from financial institutions through mortgages, credit cards, and loans, usually at interest rates far higher than the banks themselves borrow at. The higher the risk profile of the borrower, the higher the rates of interest, a process reflected in the growth of pay day lending with interest rates over 1000% per annum in some extreme cases. At the same time, individuals and families are pressurized to save in order to make themselves eligible for lower interest rate loans as well as so they can meet their own health and old age costs. Financial institutions have developed all sorts of products, though often with highly marginal

differences on interest rates or conditions of withdrawal to ensure they gain these savings. The life chances of individuals and families are increasingly wrapped up in how they engage with the financial markets. Financial institutions developed an ever increasing array of pensions and savings products to suck in funds from individual savers pushed by states to become self-reliant in a lengthening old age (Fligstein and Goldstein, 2015).

The same increasingly goes for the state in Western capitalisms. Sovereign debt rose as countries sought to shrink their tax base following the policy recommendations of neo-liberalism whilst being constrained from shrinking their spending as much due to embedded social opposition and the need to respond to the challenges of global competition. As state borrowing in the bond markets expanded in order to support public spending when tax yields decreased due to declining levels of corporate tax take and reductions in higher rates of tax, annual budgets had to be managed increasingly carefully and governments resorted to privatizing former state services to reduce costs. The state divests itself of direct responsibility for the provision of public services, instead contracting these out to the private sector through creating market structures and market prices some of which require a vast panoply of expertise and technology to make them work, e.g. as in the energy market or telecoms. The 2008 Global financial crash exacerbated these processes as tax revenues further collapsed, demands on the welfare bill increased and at the same time states had to rescue their banking systems. States have covered the gaps from the financial markets in the process becoming what Streeck labels as 'debtor states' reliant on the good will of the markets to renew, extend and issue bonds at interest rates which are sustainable (Streeck, 2014).

By the 1980s, finance had grown sufficiently in the US and the UK and the ideological and technological supports for this extension had been established in contrast to the declining legitimacy of Keynesian constraints that key reforms were made such in both the wholesale and the retail financial services markets to enable the sector to expand rapidly (Mirowski, 2002; Peck, 2011; Morgan and Sturdy, 2000; Augar, 2008) As this new institutional complex around finance grew within and across national borders, resistance was limited , particularly as finance extended its presence into everyday life through the processes described earlier e.g. expansion of credit and mortgages, individual share-ownership efforts during phases of privatization and the reduction of collective forms of pension provision (in the state and in occupational/firm based schemes) with individual pension ownership (Lounsbury and Hirsch, 2010). These institutional experiments chimed with the changing nature of governance in big firms. For firms, as described earlier, their goal has become to maximize their financial value through squeezing their assets, borrowing for investment, selling back their shares to push up their price and making as much use as they can of tax opportunities to minimize their contribution to state treasuries For states, a similar logic began to take hold from the two directions described earlier – borrowing from the financial markets (Krippner, 2011) and contracting out state services.

Clearly the degree of financialization differs across national contexts in Europe and the USA; it appears in different forms depending in part on institutional legacies, path dependencies, political coalitions and external conditions. For example, different forms of housing provision and how these fit into the social reproduction of families and intergenerational inheritance clearly affects the degree to which financialization has embedded itself through mortgages (Schwartz and Seabrooke, 2008). Similarly legacies

in terms of distinctive corporate governance systems such as the significance of Foundations as owners in the Nordic countries (Thompson and Kaspersen, 2012) or state ownership of minority shareholdings can reduce aspects of shareholder value type activity (Musacchio and Lazzarini, 2013).

Nevertheless in these economies, institutions of the state, welfare, and finance have been reshaped to facilitate the growth of financialization which eats ever more deeply into how actors define themselves and their role in the economy. Corporations focus more on short-term results, juggling their costs including labour in ways to satisfy shareholder demands. States are increasingly subjected to the discipline of financial markets as they borrow (whilst paradoxically at the same time propping them up). In the process, states are privatizing and contracting out as well as reducing the costs of benefits directly. The standard of living and security of families and individuals is increasingly wrapped up in how they manage their finances and in particular the balance between savings and debts at various points in the life cycle with issues of housing, health and pensions increasingly financialized.

East Asian capitalism and financialization

What does the growth of financialization mean for East Asian forms of capitalism? The rest of this paper explores this question drawing on the diverse notion of financialization used in the first section of the paper and drawing analogies and/or connections across countries. Firstly are these trends dependent on Asian forms of capitalism? If so, in what ways? Secondly are these trends having similar impacts in Asia as in Western forms of capitalism?

Dependent on Asian forms of capitalism?

The most obvious form of dependency arises from the way in which China has managed its surplus with the Western economies and particularly the US (Helleiner and Kirshner, 2014; Helleiner and Kirshner, 2012). China has kept much of this surplus in dollar form and has invested it primarily in safe havens such as US Treasury Bills (Schwartz, 2009). This has been described as a major part of the 'wall of money' which has arrived in the Western financial centres from the 1990s and has contributed to keeping interest rates low in the Western economies. Low interest rates in turn have driven 'the search for yield', i.e. the effort of financial institutions and investors to find returns which are above the safe returns from bonds. The result is a further pressure on two forces. First, this reinforces the push for firms to achieve high levels of returns to their investors through share buy-backs etc. Secondly it pushes financial institutions to find assets that can provide higher returns. This is the source of the development of financial derivatives in mortgages; packaging individual mortgages up into securitized bonds based on derivatives and then splitting these packages into various tranches enabled financial institutions to sell products which appeared to deliver higher than average returns whilst being relatively risk free, as credit rating agencies were rating such instruments as very safe with triple A status.

This surplus itself is dependent on the different cost structures of the US and China. Over the last two decades, the ability of Chinese firms to produce cheaply in a large number of mass production industries has led to a concentration of such activities in China and their decline in the West, a process which is ongoing and shifting, both within China (away from the coastal areas towards inland China) and within Asia (with the growing importance of other locations such as Vietnam etc.) (Steinfeld, 2004). The

decline of manufacturing jobs in the US and elsewhere is an important factor weakening efforts at collective regulation and thus leading to the stagnation of wages and the decline of full time, long-term employment contracts in favour of temporary and part-time work. As a result of this stagnation, US workers have been driven into dependence on credit as one way of maintaining their standard of living. Reducing the costs of their bill for providing health care and pension rights for workers as part of meeting Asian competition similarly pushes employees into personal savings for pensions and health. Thus one part of the consequences of the changing competitive position of US capitalism and Asian forms of capitalism is to push the growth of financialization.

This creates a curious dependency between China and the US. As Eichengreen and others have pointed out (Eichengreen, 2010), because so many investors from other countries keep their money in dollars, the dollar acts as a sort of reserve world currency. Nobody wants the dollar to significantly devalue as it would undermine the value of their holdings; they therefore continue to invest in the dollar which receives seigneurage advantages from this. On the other hand, the US government may allow the dollar to devalue in order to improve competitiveness. The printing of money under the quantitative easing process also brings fears of inflation and a possible future reduction in the value of the dollar but to shift assets out of the dollar is only likely to lead to further devaluation. So long as the dollar remains central to international trade and the 'safe' haven at times of volatility, China will have difficulty disentangling itself from the one-sided nature of this relationship (Prasad 2014). China has indicated its dissatisfaction with this and has begun discussions on the development of a different form of reserve currency in terms of the Special Withdrawing Rights which the IMF has

developed as an alternative to the dollar as a 'world currency'. Nevertheless the way the two countries have accommodated to the change in the global division of labour leaves them interdependent and managing potential conflict areas in order not to damage their own interests (Guillen 2015: ch.5).

These macro-economic dependencies clearly also affect the terms of trade between currencies and from this trade flows. Most Asian economies use a form of the dollar peg to keep them in line with the US currency and ensure that there is no disruption to trade caused by rapid devaluations. However, under Abe (as discussed below) Japan has engaged in just such a devaluation which has led to fears of a currency war particularly with China where minor adjustments of the value of the renminbi have been undertaken to combat losing competitiveness. If China's competitiveness does begin to decline and the trade surplus with the US declines, then it may be that the 'wall of money' will decline, contributing to rising interest rates and a form of 'credit crunch' affecting all those companies and individuals that have become over-endebted. Another threat is if China starts to liquidate its holdings in US Treasuries because it needs the funds to deal with its own internal problems, e.g. the emerging banking crisis in China due to overlending on unproductive assets in the aftermath of the 2008 Financial crisis and global downturn. Another potential pressure on China is expanding middle class consumption by offering more credit facilities and/or by reducing the pressure to save; this can be done by expanding areas of state provision of welfare (housing, education, health, pensions). Growing state expenditure in this area, however, has implications not only for administration but also for the organization of taxation, both of which are enmeshed in all sorts of complex relationships in contemporary China and would be difficult to reform. Finally a threat to this system lies in the politics of China and if there

is any destabilization of the current regime arising from the disparate causes of unrest which bubble under the blanket of repression and control currently exercised by the Chinese Communist Party.

In this sense, financialization in the West is threatened by growing currency wars, the possibility of the decline of Chinese competitiveness and the need of the Communist Party to manage these processes whilst retaining control over the loyalty of the population in part through extending the material rewards of the system (see also (Helleiner and Kirshner, 2014). Thus at this macro-economic level, there is strong interdependency between financialization and Asian, particularly Chinese, capitalism.

Are Asian economies becoming financialized in the same way as Western capitalisms?

In the earlier discussion, financialization was described in terms of the way in which firms were organized, the centrality of financial markets to the economy, the dependence of the state on the financial markets and the degree to which the lives of individuals were financialized.

- *Firms*; in broad terms the way corporate governance and ownership is organized in Asian capitalisms remains distinct from the shareholder value model of firms in the West. Key practices like the importance of family majority ownership, the existence of business group structures, support from the state appear across many Asian economies (Aguilera and Jackson, 2010; Aguilera et al., 2012). Whilst many firms sell a portion of their shares on stock markets in Asia and in the West, they rarely sell sufficient (or sufficient of the right kind where there are category A and category B shares available, the latter with non-voting rights) to enable a market for corporate control to emerge. Managements in most Asian

companies are unlikely to be ousted by external shareholders; the dynamics of conflict within boards will usually be hidden and will occur between family members or between insiders of various sorts. The weakness of external shareholders protects against the sort of short term pressures which are exerted for returns in the West, though it also leads to the possibility of insiders raiding corporate assets and using them for their own purposes, including personal consumption or bribery or to exert political influence as has happened in the Korean case in relation to the leaders of some chaebols. It also seems clear that levels of reward for senior executives have not expanded to the same degree as in the US and the UK. The use of stock options, a source of major inequality in the West, is still limited in Japan. Arguing that Asian firms are not financialized along the lines of what has occurred in the US and elsewhere does not mean that they are necessarily more investment focused or less unequal but rather that the constraints under which they operate and the choices they make have not been restructured into a financialization mould.

- *Financial markets*: it is the case that Western financial institutions have moved into certain parts of Asia and have tried to establish markets for corporate control. Japan, for example, has experienced waves of entry of US banking institutions and whilst there has been a small increase in mergers, these remain usually by mutual consent rather than takeover battles. Private equity and hedge funds have also established themselves in Japan but they remain more like part of the existing investment management community than a radical alternative as they present themselves in the West. Derivatives markets are growing in Asia in terms of currency risk, interest rate risk, credit risk etc. but these markets were

not initiators of the products that led to the 2008 crash. Nor were they major buyers of these instruments compared to US and European financial institutions.

- *Financial institutions and financial markets;* under conditions of financialization, financial institutions and financial markets become more powerful drivers in the economy and source of the most profitable businesses. In Japan and Korea, the financial institutions have generally been subordinate to and supportive of major manufacturing companies, a process reinforced by the way in which the state has managed the banking sector as a source of capital for development. In Korea, a brief period of deregulation in the early 1990s led to an influx of foreign capital that was recycled by the banks loosened from the tight control which previously the state had exercised over them. As a consequence asset prices boomed without being able to develop sustained returns commensurate with the new investment. Once this became clear, foreign capital left and the Korean financial system collapsed. In the reform period to 2000, tighter regulation was placed over the banks (Haggard et al., 2003) at the same time as they were separated more clearly from the state, placing them on a more commercial footing. Meanwhile the state accumulated more foreign reserves to protect itself against the volatility of foreign investment and currency fluctuations. In Japan, a period of financial expansion during the 1980s built on the revaluation of the yen due to Japanese competitiveness and accretion of foreign reserves led to a strengthening of the yen and an asset price boom in the stock market and in property as well as a vast growth of over-priced foreign assets. Japanese firms and individuals borrowed to invest at home and abroad, speculating that prices would continue to rise irrespective of the quality of the underlying asset. When the bubble burst, Japanese banks were left with large debts and holes in their

balance sheets due to the failure of the over-valued assets to deliver. For much of the 1990s, these debts were not resolved and Japanese growth stagnated. As a result of these crises and their overhang, neither Japanese nor Korean banks participated much in the expansion of financial products occurring in the US and UK during the late 1990s and 2000s reducing their exposure to the financialization trends noted earlier. China on the other hand which seemed relatively insulated from these financialization pressures until around 2010 now seems to be heading into a similar credit crisis as post 2008, the government released the banks to make loans easier so that spending on infrastructure could substitute for shrinking demand on the world market for Chinese goods. As in Korea and Japan, this created an asset price boom in which speculation was rife and firms and individuals borrowed in the expectation that prices would continue to move up. However, many of the assets have failed to deliver returns and as a result many banks are having to be propped up by the state. Similarly, prices have been falling on China's stock markets as economic growth has slowed. Individuals and companies which borrowed to speculate as the market was moving up are in increasing difficulties. If they liquidate too quickly, price falls speed up leading to catastrophic losses and bankruptcies. The Chinese government has closed stock exchanges and trading to stop this happening and it has other weapons in its armoury to defend itself, not least its huge foreign exchange reserves but nevertheless, these developments have potential global significance given the role that China plays in the world economy. In conclusion, Asian capitalisms have not purposely grown large independent financial sectors free from state control; mostly the state has framed the way in which finance works and where it has loosened the controls, the results have generally been to

lead to credit crises, causing the state to come back into the equation. However, the current situation in China reflects the inability of even such a strong state avoiding crises arising from the expansion of financialization.

- *States and financialization*: does Streeck's concept of the debtor state apply in East Asia? Certainly Japan has a high level of borrowing to GDP (226% in 2011) but much of this debt is held by Japanese citizens and not by global financial institutions. It is therefore less subject to the risk that interest rates will be driven higher because overseas financial institutions have begun to reassess risk. This is not to claim that the Japanese state is unaffected by the size of its debt – this is clearly not the case and the difficulties of resolving this revolve around the role of increased taxation (politically unpopular and also a further dampener on the Japanese economy) versus reducing state expenditure either via cutting welfare and education costs or via privatisations or by reducing the sort of 'pork-barrel' politics which has been central to Japanese politics and the dominance of the Liberal Democratic Party for most of the post-war period. Another option being followed by the Abe government is deliberately stoking inflation (so that debt can be repaid more easily) by printing more money resulting in the other advantage of devaluing the Japanese yen and making it more competitive against other currencies such as China, Taiwan and Korea. The potential for currency wars in East Asia is high in these circumstances. Is Japan a 'debtor state'; yes it is and this is affecting state services and leading to more debate on the balance between collective and individual welfare provision but Japan is distinguished from the Western debtor states because most of its debt is held internally and long-term. Korea on the other hand has been careful to avoid debt. Its debt to GDP ratio in 2012 was 33% whereas the US was approaching 90% and the UK

75%, whilst the European countries worst hit by the sovereign debt crisis were over 100% up to 165% in 2012 for Greece. Finally the Chinese state appears a very complex case. The ability of the state to control the external funds generated by the country's expansion and its use of state banks internally mean that an essential part of keeping Chinese capitalism on the road revolves around managing finance. But contrary to the West, it still seems that it is the state that is in the driving seat and it is not being pushed out of that by foreign capital and the forces of financialization emanating from the West.

- *Individuals, families and financialization in Asian capitalisms:* in the Western economies, the collapse of state welfare systems under the pressure of financialization led to an increased interdependence of individuals and families on the credit provision side of finance as well as on the savings side. The expansion of credit also appears to be occurring rapidly in East Asia. According to a survey conducted by the German financial services provider Allianz in 2014, household debt was increasing fastest in the world in China, growing 332% in 2013. Household debt as a % of GDP in Korea was 92.9%, the 10th highest in the world. In terms of total household debt (i.e. unadjusted for population), Japan and China were 2nd and 3rd in the world respectively some way behind the USA. On the other hand, China also has a very high savings rate (50.1% in 2013) as does Korea (34.1%) compared to the UK (15.1%) and the US (16.3%). Japan which traditionally had a high savings rate still remains above the Western economies but is gradually declining – from 20% in 2010 to 18.3% in 2013. These figures make clear that the financial sector in these East Asian capitalisms is increasingly becoming entangled with people's lives as these economies make the adjustment to higher expectations about standards of living. This requires

much further investigation to assess the degree to which everyday life is becoming financialized in these economies. One aspect which needs particular attention in comparison to Western capitalisms is the role of the family as a source of financial aid and security. High levels of savings in China reflect a general distrust of the state and the banking institutions and a preference for keeping funds amongst the family, although interestingly recent research has shown that for the very richest Chinese access to tax havens via Hong Kong has become an important way to protect one's capital against the state even if this is illegal and increasingly opens one up to the severest punishment.

Conclusions

Western forms of capitalism have over the last two decades become increasingly financialized. This process has affected firms and their corporate governance and strategy together with their modes of management of labour, financial markets and their expansion linked to the growth of the new financial products, states and their increased dependence on financial markets and individuals, families and households and their dependence on financial markets. This set of processes has changed the institutional framework of Western forms of capitalism to varying degrees with impacts on inequality, security, welfare policy, taxation, innovation and the provision of state services. The paper asked firstly how these processes are connected to developments in Asian capitalisms and secondly whether Asian capitalisms were becoming more financialized. With regard to the first question, Western financialization was seen as highly interdependent with developments in China in two ways. Firstly, the relative competitive position of China and the USA based on the forms of labour control and regulation in both countries had led to China building a huge trade surplus with the US and effectively destroying many areas of manufacturing. This weakened the power of

US labour to resist the development of shareholder value ideology a key part of financialization. It also meant that China had a surplus of dollars which it had to handle carefully. China decided to invest large amounts in US Treasury Bills and this recirculation of the surplus into the US financial system was an essential part of creating a low interest rate environment which facilitated increased borrowing, sometimes in order to take on risk that might yield higher returns. So financialization in the West is highly dependent on the stability of China.

Is financialization penetrating into these East Asian forms of capitalism? Overall, the answer seems to be that this is not the case. Financial institutions are not the dominant players and in Japan and Korea have been relatively weak over recent years. State borrowing from the markets is limited in Korea; state borrowing is very high in Japan but predominantly from Japanese citizens rather than the financial markets. In the Chinese case, the government has massive financial resources which it directs internally and externally for its own interests. Whilst there is evidence that this has led to an asset boom in China and huge losses for banks, and that this is creating worries about the instability of the Chinese financial system and the potential knock-on effects of this, this is because the state has over-reached itself not because the financial institutions have independently brought a crisis as could be said about 2008. Perhaps the most interesting aspect of financialization in the Asian case is the expansion of credit and debt to the population as a whole. It would be interesting to understand this further and how it is related to changes in regulation, changes in wages and salaries, changes in state and corporate welfare and changes in expectations, though all of this needs to be considered in a context where the extended family as the financial unit remains much

more important than in the West. To what degree might financialization from below drive other changes in the institutionalization of financialization.

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